

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

ACG PRODUCTS, LTD.,

Plaintiff,

v.

OPINION AND ORDER

10-cv-716-wmc

JAMES GU, BIO-NUTRITION
INTERNATIONAL, INC. and
BEIJING HUACHIN HI-TECH, INC.,

Defendants.

Plaintiff ACG Products, Ltd. alleges defendants James Gu and two companies for which he serves as an officer, Bio-Nutrition International Inc., and Beijing Huachin Hi-Tech, Inc., infringed on ACG's trademark for one of its animal feed products FEED-BOND® in violation of the Lanham Act, 15 U.S.C. § 1125(a), and various state statutory and common law claims. Defendants have moved for summary judgment on three discrete bases: (1) lack of subject matter jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(1); (2) lack of personal jurisdiction over defendant Beijing Huachin Hi-Tech pursuant to Rule 12(b)(2); and (3) failure to state various state law claims pursuant to Rule 12(b)(6).

Because the court finds that plaintiff has failed to plead (and the allegations do not support an inference of) a necessary element of its Lanham Act claim -- namely that the alleged infringement has an effect on United States Commerce -- the court finds that it lacks subject matter jurisdiction over ACG's Lanham Act claim. Lacking subject matter over this lone federal claim, the court declines to exercise supplemental jurisdiction over

ACG's remaining state law claims. Accordingly, defendants' motion to dismiss is granted, and this case is dismissed without prejudice.

ALLEGATIONS OF FACT¹

Plaintiff ACG Products, Ltd. is a Wisconsin corporation, with its principal place of business in Brookfield Wisconsin. ACG is a manufacturer and wholesale distributor of animal feed for livestock and poultry. Specifically, ACG manufactures and distributes an animal feed product called FEED-BOND®, for which it has obtained a federal trademark registration.

Defendant James Gu is a Chinese citizen and Wisconsin resident. He is an officer of both defendants Bio-Nutrition International, Inc. and Beijing Huachin Hi-Tech, Inc. ("Huachin"). Each year he spends 50% of his time in China and the other 50% in Wisconsin. While in Wisconsin, he conducts business only on behalf of Bio-Nutrition. Defendant Bio-Nutrition International, Inc. is a Wisconsin corporation, with its principal place of business in Middleton, Wisconsin. Bio-Nutrition is a former customer of ACG. Defendant Beijing Huachin Hi-Tech, Inc. ("Huachin") is a Chinese corporation with its principal place of business in Beijing, China.

The First Amended Complaint alleges defendants Bio-Nutrition and Gu previously purchased FEED-BOND® in bulk from ACG. Bio-Nutrition would then repackage the animal feed in smaller quantities and sell these products to Huachin, which distributed

¹ The court accepts as true all well-pleaded facts and allegations in the complaint, drawing all reasonable inferences in favor of the plaintiffs. *London v. RBS Citizens, N.A.*, 600 F.3d 742, 745 (7th Cir. 2010).

goods containing the FEED-BOND® trademark in China. In 2008, ACG terminated its business relationship with Bio-Nutrition due to Bio-Nutrition's alleged failure to pay invoices in a timely fashion.

In October 2010, an ACG representative attended a trade show in China. At the trade show, the ACG representative witnessed Huachin and Gu selling what appeared to be a FEED-BOND® product. The product was in packaging that had the company name ACG, ACG's logo, and the FEED-BOND® trademark on it. The ACG representative purchased a bag of the product for testing purposes, conducted back in the United States. These tests revealed that the product purchased at the China trade show was not ACG's FEED-BOND®, but rather a counterfeit product. ACG further alleges that "the defendants' literature, website information, and other marketing materials also contained the plaintiff's company logo." (1st Am. Compl. (dkt. #31) ¶ 24.)

Central to defendants' motion to dismiss for lack of subject matter jurisdiction, ACG also alleges that "[t]he defendant's use of and/or copying of the ACG name, ACG logo, and FEED-BOND® logo falsely represents to customers, potential customers and the general public that the plaintiff was involved or authorized the defendants to manufacture, sell, or market the FEED-BOND® product." (*Id.* at ¶ 25.)

The First Amended Complaint alleges (1) violation of the Lanham Act, 15 U.S.C. § 1152, for infringement of trademark and various state law statutory and common law claims.

OPINION

Defendants move to dismiss plaintiff's amended complaint on three basis: (1) lack of subject matter jurisdiction of the Lanham Act Claim pursuant to Federal Rule of Procedure 12(b)(1); (2) lack of personal jurisdiction over Huachin pursuant to Federal Rule of Civil Procedure 12(b)(2); and (3) failure to state claims under Federal Rule of Civil Procedure 12(b)(6). Because the court finds that it lacks subject matter jurisdiction over plaintiff's federal claim and opts not to exercise supplemental jurisdiction over the state law claims, the court need not address defendants' arguments pursuant to Rules 12(b)(2) and 12(b)(6).

A. Extraterritorial Reach of the Lanham Act, 15 U.S.C. § 1125

ACG alleges defendants violated 15 U.S.C. § 1125(a), which provides in pertinent part:

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses *in commerce* any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(emphasis added). “Commerce” is defined as “all commerce which may lawfully be regulated by Congress.” 15 U.S.C. § 1127.

The question, here, is whether plaintiff’s allegations of infringement implicate “commerce” as defined by the Lanham Act so as to fall within the jurisdictional scope of that act. The seminal case on the extraterritorial reach of the Lanham Act is the United States Supreme Court’s decision in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952). Steele was a United States citizen, residing in Texas, but conducting a watch business in Mexico City. *Id.* at 281. The complaint alleged that without Bulova’s permission and for the purpose of deceiving the public, Steele stamped the “Bulova” name on watches assembled and sold in Mexico. *Id.* American citizens purchased Steele’s watches marked with the “Bulova” stamp, and Bulova reported that it had received numerous complaints in the Mexican border area from customers believing they had purchased Bulova watches and seeking repairs of those watches. *Id.* The Court found that the allegations fell within the jurisdictional scope of the Lanham Act because Steele “bought component parts of his wares in the United States, and spurious ‘Bulovas’ filtered through the Mexican border into this country.” *Id.* at 286.

At least one scholar has described the Supreme Court’s decision in *Steele* “as a landmark, which liberally interprets the extraterritorial sweep of American trademark law,” and further noting that after *Steele* the jurisdiction under the Lanham Act is “considerably broader than patent and copyright laws.” 5 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 29:57 (4th ed. 2011). Even

acknowledging the relatively broad scope of the federal court's jurisdiction under the Lanham Act, there are still limits to that jurisdiction, and the allegations in plaintiff's complaint push them beyond the breaking point.

Perhaps due to its location in the center of the country, there is little law from the Seventh Circuit interpreting *Steele* or otherwise discussing the jurisdictional scope of the Lanham Act. In *Scotch Whisky Association v. Barton Distilling Company*, 489 F.2d 809 (7th Cir. 1973), however, the Seventh Circuit considered a case involving very similar factual allegations. The defendant's exclusive distributor in Panama imported labels and bottles supplied by the defendant from within the United States to Panama, where the distributor blended Scotch malts and labeled the products as "Scotch Whisky." *Id.* at 811-12. The court determined that while the blending and labeling occurred in Panama, the "'commerce' involved began with the defendant's acts in the United States and continued to the ultimate distribution of the whisky." *Id.* at 812. The court also noted that the sales of the product occurred within the Canal Zone, and that "the trademark laws of the United States have the same force and effect in the Canal Zone as in the continental United States." *Id.* at 812-13.

Other circuits have developed various multi-factor tests to assess whether the plaintiff's allegations fall within the jurisdictional reach of the Lanham Act. All of these tests share a requirement that the alleged infringing products have an effect on United States commerce, though circuits differ on whether the effect must be simply "some," "significant" or "substantial." *See, e.g., Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 642-43 (2d Cir. 1956) ("substantial effect"); *American Rice, Inc v. Ark. Rice Growers*

Coop. Ass’n, 701 F.2d 408, 414 n.8 (5th Cir. 1983) (“some effect”); *Nintendo of Am., Inc. v. Aeropower Co.*, 34 F.3d 246, 250 (4th Cir. 1994) (“significant effect”); *Ocean Garden, Inc. v. Marktrade Co., Inc.*, 953 F.2d 500, 503 (9th Cir. 1991) (“some effect”); *Int’l Cafe, S.A.L. v. Hard Rock Cafe Int’l, Inc.*, 252 F.3d 1274, 1278 (11th Cir. 2001) (“substantial effect”); *see also McBee v. Delica Co., Ltd.*, 417 F.3d 107 (1st Cir. 2005) (“substantial effect” but limited to foreign defendants).

Consistent with *Steele* and *Scotch Whisky*, this factor is most commonly met by allegations that the infringing end products produced in a foreign country subsequently entered the United States or one of its territories. *See, e.g., McBee*, 417 F.3d at 125 (explaining that plaintiffs can meet their burden of showing a substantial effect on commerce by “presenting evidence that while the initial sales of infringing goods may occur in foreign countries, the goods subsequently tend to enter the United States in some way and in substantial quantities”); *Nintendo of Am., Inc.*, 34 F.3d at 248 (finding “significant effect” on commerce where the “defendants had imported into and sold in the United States infringing cartridges”). Some courts find an allegation that the defendant used component parts imported from the United States to the foreign country where the processing and sale occurred sufficient to constitute an effect on United States commerce. *See, e.g., American Rice*, 701 F.2d at 414-15 (concerning allegedly infringing rice processed and packaged in the United States before being sold in Saudi Arabia); *but see Atl. Richfield Co. v. Arco Globus Int’l Co., Inc.*, 150 F.3d 189, 193 (2d Cir. 1998) (stating that *Steele* “does not hold that a defendant’s domestic activity, even if “essential” to

infringing activity abroad, is alone sufficient to cause a substantial effect on United States commerce”).²

In contrast, plaintiff’s complaint does not allege an effect -- substantial or otherwise -- on United States commerce. Most notably, there is no allegation that the counterfeit product has entered the United States in a way that would have an effect on commerce. The complaint specifically alleges that a bag of the counterfeit product was purchased in China and transported to the United States for *testing* purposes. (*Id.* at ¶ 21.) This allegation provides an insufficient basis for finding an effect on United States Commerce. *See McBee*, 417 F.3d at 111 (finding that sales the defendant made into the United States induced by the plaintiff for purposes of litigation insufficient to establish effect on United States commerce). Nor does the complaint contain any other allegations suggesting that the counterfeit product was purchased by American citizens and transported back to the United States or otherwise imported into the United States.

² In *Ocean Garden*, the Ninth Circuit stated that “sales of infringing goods in a foreign country may have a sufficient effect on commerce to invoke Lanham Act jurisdiction,” without any mention of these products entering the United States. *Ocean Garden*, 953 F.2d at 503. This case appears to be counter to the requirements in other cases that an effect on commerce requires at least sales to Americans returning to the United States with the alleged infringing products or importation of the alleged infringing products into the United States. *See Int’l Cafe*, 252 F.3d at 1278 (rejecting that financial gain of defendant can “establish the ‘substantial effects’ required by *Bulova*”). Notably, the Supreme Court in *Steele* did not rely on the sale of the watches in Mexico as a basis for finding an effect on United States commerce, but rather specifically relied on the allegation that U.S. citizens were returning to the United States from trips to Mexico with the counterfeit watches in hand. In any event, ACG has not pled that it is “losing millions of dollars in revenues through trademark infringement” as the plaintiff in *Ocean Garden* alleged. *Ocean Garden*, 953 F.2d at 503.

Moreover, plaintiff does not allege that component products purchased from the United States were used in the production of the counterfeit animal feed product, even assuming such an allegation would be sufficient to find an effect on United States commerce. To the extent the complaint specifically alleges anything on the subject, it is that the counterfeit product did not contain the components of FEED-BOND® (assuming that FEED-BOND® ingredients are produced in the United States). (1st Am. Compl. (dkt #31) ¶ 31.)

Plaintiff attempts to save its claim by arguing that the “use of commerce prong may be satisfied by the Defendant’s use of the mark on its website.” (Pl.’s Opp’n Br. (dkt. #37 23.) There are at least two reasons to reject this argument. First, the complaint does not allege that the mark itself was used on the website, rather it simply alleges that “[t]he defendants’ literature, website information, and other marketing materials also contained the *plaintiff’s company logo*, which the plaintiff never authorized.” (1st Am. Compl. (dkt. #31) ¶ 24.) Second, cases in which courts have found that a website bearing the infringing mark is sufficient to affect United States Commerce all involve instances where goods were purchased by U.S. citizens from the website. *See, e.g., Euromarket Designs, Inc. v. Crate & Barrel Ltd.*, 96 F. Supp. 2d 824, 832 (N.D. Ill. 2000) (finding commerce requirement met where U.S. citizens were induced to purchase infringing goods “over the Internet”) (cited at Pl.’s Opp’n Br. (dkt. #37) 23.)

As the First Circuit explained, relying on caselaw analyzing whether the requirement of “minimum contacts” for purposes of personal jurisdiction can be met through a website, “the mere existence of a website does not show that a defendant is

directing its business activities towards every forum where the website is visible.” *McBee*, 417 F.3d at 124. Plaintiff’s complaint does not contain any allegation, nor is there a reasonable basis to infer, that defendant’s alleged infringing products were marketed on a website or available for sale to U.S. citizens.

Plaintiff’s failure to allege conduct that has an effect on United States commerce deprives the court of jurisdiction under the Lanham Act. Plaintiff’s remedy, if any, is in enforcing its trademark rights in China. Accordingly, the court dismisses plaintiff’s trademark infringement claim, 15 U.S.C. § 1125(a).

B. Supplemental Jurisdiction

In addition to the Lanham Act claim, plaintiffs also allege claims for civil theft pursuant to Wis. Stat. §§ 894.446 and 943.20(1)(d), tortious interference and unjust enrichment.³ As an initial matter, there is not complete diversity of citizenship between the parties. Plaintiff ACG and defendants Gu and Bio-Nutrition are all citizens of the

³ Defendants filed motions to dismiss in response to plaintiff’s original complaint. (Dkt. ##8, 10.) Defendants withdrew these motions after plaintiff filed its first amended complaint, the subject of the present motion, but not before plaintiff had had an opportunity to respond to the first motions. Specifically, in response to defendants’ motion to dismiss plaintiff’s misrepresentation and theft claim pursuant to Wis. Stat. §§ 895.446 and 943.20(1)(d), plaintiff conceded that ACG has not alleged a “representation,” which is necessary to maintain such a cause of action. (Pl.’s Opp’n Br. (dkt. #14) 19.) Still, for reasons not apparent to the court, plaintiff pursued the same claim in its first amended complaint. (*See* 1st Am. Comp. (dkt. #31) p.7.) After acknowledging that this claim lacked merit, plaintiff’s decision to maintain the same misrepresentation claim in its amended complaint is inexplicable at best and raises potential Rule 11 concerns at worst.

State of Wisconsin. As such, plaintiff's trademark infringement claim is the only cause of action falling within this court's original jurisdiction.

Moreover, the court may decline to exercise its supplemental jurisdiction if "the district court has dismissed all claims over which it has original jurisdiction." 28 U.S.C. § 1367(c)(3). Dismissing the state law claims is consistent with "the well-established law of this circuit that the usual practice is to dismiss without prejudice state supplemental claims whenever all federal claims have been dismissed prior to trial." *Groce v. Eli Lilly & Co.*, 193 F.3d 496, 501 (7th Cir. 1999). At the motion to dismiss stage, where the merits of plaintiff's action are not before the court, there is no reason to depart from this customary practice. As such, the court will dismiss plaintiff's state law claims without prejudice.

ORDER

IT IS ORDERED that:

- 1) defendants James Gu, Bio-Nutrition International, Inc. and Beijing Huachin Hi-Tech Inc.'s motion to dismiss (dkt. #32) is GRANTED;
- 2) plaintiff's complaint is dismissed with prejudice as to its federal trademark claim and without prejudice as to its remaining state law claims; and
- 3) the clerk of the court is directed to close this case.

Entered this 4th day of November, 2011.

BY THE COURT:

/s/

WILLIAM M. CONLEY
District Judge